



Saskatchewan
Agriculture

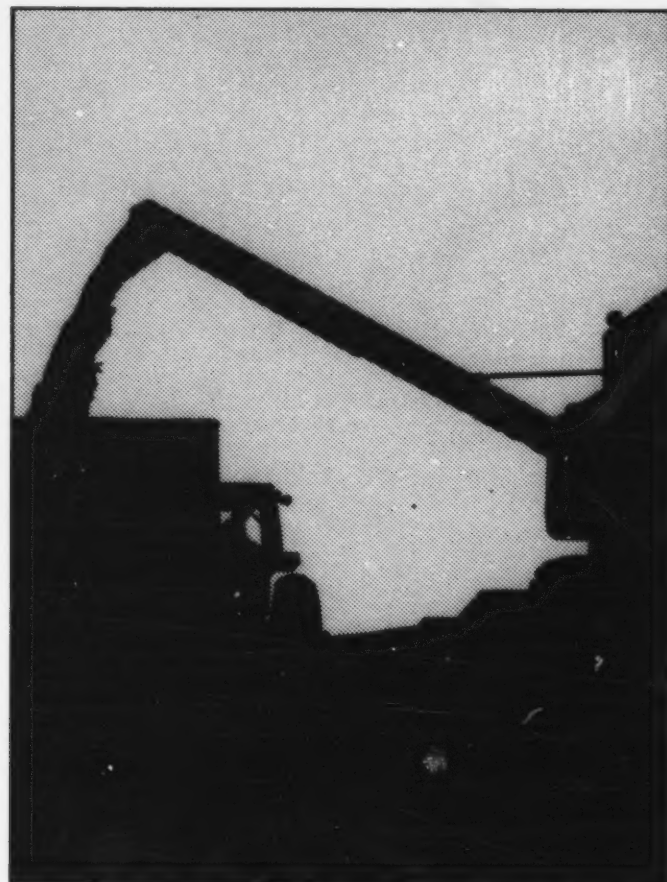
Cabinet Committee on Farm Input Costs Report to Premier Grant Devine and Cabinet Ministers



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Cabinet Committee Members



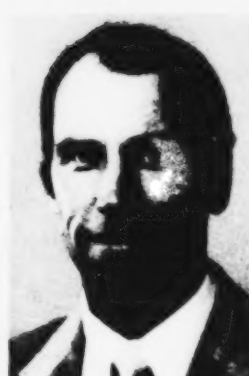
Neal Hardy
Chairman
Rural Development
Minister



Grant Hodgins
Vice Chairman
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Sherwin Petersen
Legislative Secretary
to the Premier



John Gerich
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the Minister of
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Harold Martens
Legislative Secretary to the
Provincial Secretary

Honourable Grant Devine
Premier and
Minister of Agriculture
Room 43, Legislative Building

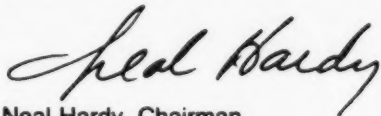
Dear Premier Devine:

It is my honour to submit to you the report of the Cabinet Committee on Farm Input Costs which you appointed in January, 1986.

Throughout the hearings, our Committee brought to your attention many suggestions of Saskatchewan farmers. Our Committee commends you for the new initiatives that you have undertaken as a result of these consultations. In particular, our Committee is pleased and highly supports your recent efforts to cut farm costs that include a fertilizer plant for Saskatchewan, increasing the domestic price for wheat, removal of the Federal sales and excise taxes on farm fuels, and the new College of Agriculture building.

These initiatives plus those identified in this report clearly demonstrate Saskatchewan's ability to provide leadership in addressing the present cost-price squeeze facing agriculture.

Yours sincerely,

A handwritten signature in cursive script, reading "Neal Hardy".

Neal Hardy, Chairman
Cabinet Committee on Farm Input Costs



Foreword

On January 16, 1986, Premier Grant Devine announced establishment of a special Cabinet Committee to conduct a series of public hearings across the province on farm input costs.

Premier Devine noted that many factors over a period of time have combined to produce a difficult situation for Saskatchewan farmers. He said, "High input costs continue to threaten our agriculture, and establishment of the Committee reinforces the Government's commitment to Saskatchewan farmers".

Through the committee meetings the Government wanted to explore additional options which may be available to help farmers cope with rising costs. The Premier noted that "through these hearings, I hope to hear how individuals believe government, farmers and industry can work together to find competitive solutions to our problems".

The Cabinet Committee on Farm Input Costs was specifically charged to:

- Invite briefs from agri-business, industry, MLA's, producers and any other person or organization interested in farm input pricing, supply, marketing and distribution at a series of public meetings conducted throughout the province;
- Examine the taxation framework in all stages of manufacturing and marketing of farm inputs;
- Examine the regulatory framework governing all stages of farm input manufacture and marketing;
- Examine the adequacy of research and extension directed at lowering costs of production in primary agriculture; and
- Prepare and provide a report to the Minister of Agriculture of the concerns identified at the public meetings and recommend courses of action.

The members of the Committee on Farm Input Costs were:

- Neal Hardy, Chairman, MLA, Kelsey-Tisdale, Minister of Rural Development and Co-operation and Co-operative Development
- Grant Hodgins, Vice-Chairman, MLA, Melfort, Minister of Highways and Transportation
- John Gerich, MLA, Redberry, Legislative Secretary to the Minister of Rural Development
- Harold Martens, MLA, Morse, Legislative Secretary to the Provincial Secretary
- Sherwin Petersen, MLA, Kelvington-Wadena Legislative Secretary to the Premier

Thirteen meetings were scheduled by the Cabinet Committee on Farm Input Costs.

Date	Location
February 17	Esterhazy — Heritage Hall
February 18	Yorkton — Royal Canadian Legion Hall
February 19	Kelvington — Legion Community Centre
February 20	Melfort — Heritage Inn
February 21	Raymore — Elks Hall
February 24	Weyburn — Weyburn Inn
February 26	Assiniboia — Royal Canadian Legion Hall
February 27	Shaunavon — Royal Canadian Legion Hall
February 28	Swift Current — Horseshoe Lodge
March 3	Moose Jaw — Heritage Inn
March 5	Rosetown — Elks Hall
March 6	North Battleford — Tropical Inn
March 7	Prince Albert — Wills Inn

The meetings were widely advertised and a toll-free telephone number was established so individuals and organizations could schedule both oral and written presentations.

Acknowledgements

The Cabinet Committee on Farm Input Costs wishes to acknowledge the time and effort given by individuals and organizations who so actively participated in the Committee hearings. The wealth and breadth of ideas presented to the Committee provided the basis for recommendations that arise from a true partnership of agriculture and government working together. The recommendations proposed reflect the scope of farmer opinion and focus directly at lowering production costs.

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1.0 Overview

The Saskatchewan Cabinet Committee on Farm Input Costs held thirteen public meetings during February and March, 1986. The effects of the protracted cost-price squeeze that had commenced in the 1970s in the farm community was readily apparent at the hearings. Farmer after farmer told the Committee that competition was too limited in the pricing, supply and sale of essential farm inputs such as fuel, fertilizers and chemicals.

Farmers have become increasingly frustrated and angry at the pricing and supply practices of the chemical and fertilizer companies, the banks and financial intermediaries and many other suppliers. Recent farm experience has seen exorbitant high interest rates in the early 1980s, excessive farm fuel and fertilizer price differentials, fluctuating wholesale and retail margins and discounts and continued price increases, even though labour costs have stabilized and interest rates and energy prices have fallen. Today, the farm community questions the intentions of much of the farm supply sector.

Today, too many Saskatchewan farmers believe they are paying more than they should for their essential farm inputs. They are concerned at the lack of competition in the Saskatchewan marketplace. They look to increased competition, rather than government price regulation, as the long term solution.

Farmers look to government to buffer agriculture against the vagaries of the highly volatile monetary and commodity markets and to offer protection against unfair international competition and subsidies. They look to government to secure the market environment for the increased and healthy competition in the farm supply sector that will assure farmers of fair value for money. Farmers look for concrete actions that will increase local supply (e.g. fertilizer plants), remove market barriers (e.g. chemical registration and licensing procedures) and generally encourage price competition.

The farm community recognizes the serious and complex nature of the farm financial situation in today's difficult international market environment, characterized by increased competition, falling prices and substantial and excessive offshore subsidies. Farmers, therefore, look for governments to support their interests in Saskatchewan, in Canada and abroad. Holding down farm input costs is clearly a major part of the solution.

The Progressive Conservative Government of Grant Devine has led agriculture policy in Canada since its election in the spring of 1982. Positive measures have been taken to directly address many pressing farm issues.

When interest rates were unstable and hitting new highs, it was impossible for many farmers, particularly young and beginning farmers, to borrow money they needed to buy farm land. As a result, the Farm Purchase Program was introduced to lower and stabilize interest rates. It has shielded many farmers from a volatile and unmerciful world monetary policy.

Developing a new approach to agricultural policy issues in Saskatchewan has required a strengthened partnership

between government and farmers. Accordingly, the present Provincial Government has actively pursued direct consultations with farmers and the agri-business community. These discussions have led to concrete results that include:

- The formation of the Agricultural Credit Corporation of Saskatchewan which provides low-interest loans to livestock and irrigation enterprises;
- The Farmers' Oil Royalty Refund Program which will return \$42 million in provincial revenues to farmers;
- The Livestock Cash Advance Program which significantly improves the cash flow position of livestock producers;
- The Feeder Associations Loan Guarantee Program which encourages cattle feeding in Saskatchewan;
- The Natural Gas Distribution Program which reduces farm energy costs;
- The Livestock Investment Tax Credit which promotes feeding in the province, and
- The Production Loan Program which has provided more than \$1 billion in low-interest, 6 percent, operating funds to Saskatchewan farmers.

Farmers have also recognized that effective changes to the agricultural policy environment required the co-operation of other governments in Canada and abroad. This consultative approach by the Government of Saskatchewan led to agriculture being placed on the national policy agenda for the first time in years. At Saskatchewan's urging, the Prime Minister and Premiers from across Canada agreed to act on agriculture at the First Ministers' Meeting held in Halifax, November, 1985.

In developing a national position for Halifax, Saskatchewan consulted widely with farmers, farm organizations and others with interests in agriculture. This led to the development of provincial agricultural priorities that were adopted nationally at Halifax as the basis for a new National Agricultural Strategy.

This co-operative approach between farmers and federal and provincial governments working together toward a common purpose is starting to yield results. Federal farm fuel taxes have been removed, freight rate increases stopped, federal bankruptcy laws changed and agriculture was moved onto an international stage by the Prime Minister at the Tokyo Economic Summit.

A start has been made by both federal and provincial governments. After years of neglect, agriculture policy is now receiving the attention it deserves and is moving in the right direction. It is a move that is generally recognized and appreciated by farmers and the public alike. But, it is only a start and more, much more, needs to be done.

Saskatchewan farmers have called for substantive action to arrest and lower the steadily rising costs of farm inputs. In January, 1986, Premier Grant Devine appointed a Cabinet Committee to meet with farmers and others to see what further action would be possible to lower farm input costs. The public meetings of the Committee were attended by approximately 2,000 people. The results of those hearings and the recommendations of the Cabinet Committee on Farm Input Costs are the subject of this report.

2.0 Summary of Committee Recommendations

General

The Government of Saskatchewan should adopt a strategy of stabilizing and reducing farm input costs by facilitating improved competition in the input supply sector, enhancing domestic supply of farm inputs, amending regulations and policies affecting farm input prices and supplies, improving the quality and productivity of human and physical agricultural resources, and adjusting taxes where appropriate to lessen the burden on Saskatchewan farmers. In order to pursue this strategy the Committee makes the following recommendations.

Market Information

The Government of Saskatchewan should seek to improve competition in the marketplace for farm inputs through better market information for farmers.

The Committee recommends that the Government continue to provide timely information on farm input costs through the Farm Input Price Survey and that immediate access to this price information be implemented through toll free telephone lines.

Interest Costs

The Government of Saskatchewan must continue to pursue lower and more stable interest rates for farmers.

The Committee recommends that the Government actively pursue in conjunction with the Federal Government an agribond system to help provide stable long term interest rates for farmers investing in agriculture.

The Committee also recommends that the Government of Saskatchewan pressure the Federal Government to authorize the Farm Credit Corporation to set fixed, long term interest rates of eight percent for all existing and new land loans.

Fuel Costs

The Government of Saskatchewan should strive to enhance the competitiveness of farm fuel supply markets in order that farmers are able to obtain fuel at the lowest possible cost.

The Committee recommends that the Government of Saskatchewan press Saskatchewan fuel suppliers to offer discounts to Saskatchewan consumers rather than offering such discounts to consumers in the United States.

The Committee also recommends that the Government of Saskatchewan press the Federal Government to review the pricing by fuel wholesalers in Western Canada to ensure that pricing practices are consistent with providing fuels at the lowest possible cost. It is the Committee's view that Petro-Canada could well become a more aggressive marketer and price-setter for farm fuels in Western Canada and thus ensure that farmers can purchase fuels at competitive prices.

Fertilizers

The Government of Saskatchewan should facilitate more competitive fertilizer prices for Saskatchewan farmers through a market which functions more efficiently, encouraging Saskatchewan fertilizer production, and by minimizing government taxes.

The Committee recommends that the Government investigate methods of encouraging the purchase of bulk urea from offshore producers to reduce nitrogen fertilizer prices in Saskatchewan. A counter-trade arrangement or other trade arrangements should be considered to facilitate two-way trade — that is, exporting our grains and importing their fertilizer.

The Committee recommends that the Saskatchewan Government press the Federal Government to remove taxes on natural gas used for fertilizer production.

The Committee recommends that the Provincial Government encourage the establishment of fertilizer manufacturing facilities in Saskatchewan through loan guarantees, or other forms of assistance. This objective is now being pursued by the Saskatchewan Government.

Chemicals

The Government of Saskatchewan should attempt to lower costs and improve availability of farm chemicals through better functioning markets, encouraging Saskatchewan production of farm chemicals, seeking amendments to federal regulations, and encouraging safe, effective use of farm chemicals.

The Committee recommends that the Federal Government's Product Specific Registration procedures be removed to facilitate the production of generic chemicals in Canada. However, the Committee also insists that a method of testing generic chemicals for environmental and health safety must be in place. A system could be adopted whereby the manufacturer of a generic chemical pays a testing fee to a national testing agency for environmental and health safety. The Federal Government should establish a lead agency for co-ordinating the testing requirements for generic chemicals.

The Committee recommends that the duration of federal patent protection on agricultural chemicals be reduced. This could have a significant downward influence on agricultural chemical prices. The length of patent protection should be adequate for the company investing in research, development and marketing of a new chemical to recover its investment but not to earn excessive profits.

The Committee recommends that labelling requirements for farm chemicals be relaxed to allow for the importation from the United States of chemicals which do not meet Canadian labelling standards regarding metric specification and bilingualism.

The Committee recommends that the Saskatchewan Government encourage the development of facilities to manufacture farm chemicals. A venture of this nature would involve high risk and assistance will likely be required to encourage such facilities to locate in Saskatchewan.

The Committee recommends that the Government develop additional programs which would promote the more efficient application of chemicals.

Agricultural Machinery

The Government of Saskatchewan should encourage the increased availability of high quality repair service for agricultural machinery throughout the Province.

The Committee recommends that the Government encourage more job training courses for service personnel for new machinery in conjunction with provincially-funded institutes and machinery dealers and manufacturers. A system of scholarships for service personnel would be well-received and may be most appropriate for specialized courses.

Utilities and Insurance

The Government of Saskatchewan should continue to utilize Provincial Crown Corporations whenever possible to reduce cost and improve utility service to Saskatchewan farmers.

The Committee recommends that Saskatchewan Power Corporation finance the farmer's portion of the natural gas hookup cost over five years at the Corporation's cost of borrowing.

The Committee also recommends that farmers who utilize three phase electrical power have available to them programs similar to the proposed natural gas initiative with subsidized hookup charges and low interest financing.

The Committee recommends that the Government of Saskatchewan investigate means of bringing liability claims and premiums under control. Very high public liability claim settlements have resulted in high insurance costs for local businesses, local government and school boards. These costs eventually come out of the farmer's pocket.

Farm Management

The Government of Saskatchewan needs to re-emphasize the importance of effective farm financial management in light of the difficult financial times being experienced by the Saskatchewan agricultural sector.

The Committee recommends that the Saskatchewan Department of Education implement more accredited business management courses into the secondary school system. Some opportunity exists now for these courses but the Committee feels that the availability of such courses is not sufficiently widespread.

The Committee further recommends that a basic knowledge of agriculture be taught in Saskatchewan's school system. The present agriculture course needs upgrading. The Saskatchewan Institute of Agrologists is presently involved in developing material for inclusion in high school courses.

The Committee further recommends that the Department of Agriculture continue to strengthen course offerings in regard to farm financial and marketing management and through Extension Services make the farming public more aware of available courses.

Feed Grains

The Government of Saskatchewan requires an assertive strategy to enhance availability of feed grain supplies to Saskatchewan feed users at competitive prices.

The Committee recommends that the Canadian Wheat Board (CWB) implement a system of switching feed grains whereby livestock producers can purchase feed grain that is in storage in local elevators. The CWB would offer to switch feed grain stocks from the export position to prairie elevators.

The Committee recommends the cleaning of grains and pelletizing of screenings in Saskatchewan to make feed more available to Saskatchewan users.

Grain Transportation

The Government of Saskatchewan should seek to reduce the costs of grain transportation by encouraging improved logistics and efficiencies and by minimizing regulation of the system.

The Committee recommends that the Port of Churchill be used more extensively for the export of western grains and the use of this Port be made more economical by encouraging more incoming products wherever possible.

The Committee recommends that the Government of Saskatchewan allow farm trucks to haul overweight loads during designated winter months to local delivery points without special permits so long as they meet safety requirements.

Farm Land Costs

The Government of Saskatchewan should continue to take measures such as the Farm Purchase Program which alleviate the burden of farm land costs for Saskatchewan farmers.

The Committee recommends that the Department of Agriculture review pasture carrying capacities to determine whether pastures which have experienced extreme weather conditions can support the present stocking rates.

Research

In light of the continued pressure from world markets for Saskatchewan farmers to improve productivity and efficiency through new technology and technology transfer, the Government of Saskatchewan should renew its commitment and support of these areas in co-operation with the Federal Government, farmers and agribusiness.

The Committee recommends that the Department of Agriculture give further emphasis to research on biological control of pests in order to reduce farm chemical costs in the future;

The Committee recommends that Federal Government crop research facilities be expanded and that similar research currently being performed at the University of Saskatchewan be better co-ordinated with Federal Research Stations;

The Committee recommends that the Provincial Government encourage the Federal Government to examine alternatives to improve research efficiency such as specialization of research at different Federal Government Research Stations;

The Committee recommends that a branch of the College of Agriculture be established at Melfort to conduct specialty crop research;

The Committee recommends that the Department of Agriculture continue to strengthen its efforts in assisting the transfer of new technology to farmers.

3.0 Committee Report

3.1 Market Information

Past studies and surveys have demonstrated that farmers can benefit from comparison shopping; studies have shown variability in input prices, both between centres, as well as within a centre, for the identical product.

In order to provide farmers with timely price information, the Farm Input Price Survey of retail farm input prices is conducted by the University of Saskatchewan under contract with the Department of Agriculture. The survey is conducted weekly or monthly in 25 centres and averages 20 core farm inputs. This survey continues to provide evidence of price variation for an identical product. Publication of price information can result in a decline in product price and a reduction of price differences among outlets.

The Committee recommends that the Government of Saskatchewan continue to provide timely information on farm input costs through the Farm Input Price Survey and that immediate access to this price information be implemented through toll free telephone lines.

3.2 Interest Costs

Interest payments by Saskatchewan farmers represented 15 percent of their total operating costs in 1985. Although this is down considerably from 1981 when interest payments were 20 percent of farm operating costs, high interest rates still continue to be a major burden on farmers with debt.

Many concerns and ideas were expressed at the public hearings in regard to interest rates and farm credit. There was considerable sentiment that rates remain too high even though nominal interest rates have declined from 1981 peaks. Suggestions for dealing with interest rates included:

- Imposing a ceiling on interest rates;
- Implementing an agribond program;
- Establishing low interest loans for intergenerational transfer of farms;
- Encouraging lower interest charges on farm service accounts of input suppliers;
- Establishing loans where interest rates fluctuate with farm prices; and
- Managing interest rates through responsible government monetary and fiscal policy.

Other suggestions relating to farm credit were to encourage the Federal Government to amend **The Bank Act** to put restrictions on the banks' ability to take security under section 178 and to encourage an expanded role for the Farm Credit Corporation in farm lending. Still other ideas related to equity financing mechanisms to reduce the dependence of farmers on debt-financing.

The Government of Saskatchewan has already put in place a number of programs which serve to address many of the concerns which were expressed at the public meetings. The Farm Purchase Program provides low interest loans for the intergenerational transfer of farmland. The Production Loan Program provides low cost operating money to Saskatchewan farmers to produce the 1986 crop, while interest-free cash advances have been made available to livestock producers. In addition, low interest loans are available through the Agricultural Credit Corporation of Saskatchewan for livestock and irrigation enterprises.

In spite of actions already taken, the Committee senses a need for federal and provincial governments to continue to seek ways of addressing the interest costs of farmers. Reducing and stabilizing interest costs is a particularly useful strategy for assisting farmers experiencing the most severe effects of the current financial situation in agriculture — those farmers with debt.

The Committee recommends that the Government of Saskatchewan pursue programs to reduce and stabilize interest rates for farmers and specifically that the Government actively pursue in conjunction with the Federal Government an agribond system to help provide stable long term interest rates for farmers investing in agriculture.

The agribond program could be co-ordinated by the Farm Credit Corporation. Agribonds could be offered for sale to investors, perhaps with a tax incentive and a federal-provincial guarantee. Funds could then be used to provide a source of funds at stable long term interest rates for farmers investing in agriculture. The tax incentives and guarantees may not need to be large to attract funds from investors who relate closely to the agricultural scene, such as retiring farmers or urban investors one generation removed from the farm.

The Committee commends the Federal Government for implementing, through the Farm Credit Corporation, low interest loans for farmers in financial difficulty. Such a program should assist Farm Credit Corporation clients in surviving the current cost-price squeeze in agriculture.

The Committee also recommends that the Government of Saskatchewan pressure the Federal Government to authorize the Farm Credit Corporation to set fixed long term interest rates of eight percent for all existing and new land loans.

This latter recommendation would parallel interest rates available under Saskatchewan's Farm Purchase Program. It would also move the Farm Credit Corporation closer to its original mandate of providing long term stable interest rate loans to farmers.

3.3 Fuel Costs

Petroleum and petroleum products are the largest operating cost farmers faced in 1985 totalling over \$400 million or over 15 percent of farm operating costs.

The predominant concern at the public meetings related to government taxes on farm fuels. There were opinions expressed that all taxes on farm fuels should be removed — both federal and provincial. Other opinions were that both direct and indirect taxes on fuels used in farming, farm input manufacturing and distributing farm inputs should be removed.

There was also a concern that price discounts on farm fuels of about five to ten cents per litre were available in 1985 but were terminated in January, 1986 by fuel wholesalers. These types of discounts are evidently renegotiated periodically with the companies. The degree of availability of such discounts in 1986 is not yet apparent.

A further concern was the movement of fuel across the American border into the U.S. at substantially reduced prices. Investigation of this concern revealed that this fuel was moved at very low discount prices.

The Committee recommends that the Government of Saskatchewan press Saskatchewan fuel suppliers to offer discounts to Saskatchewan consumers rather than offering such discounts to consumers in the United States.

In regard to the concern about fuel taxes, the Government of Saskatchewan does not tax farm fuels. The Government has recently moved also to rebate to farmers the provincial royalties and freehold production taxes collected on the crude oil that would be required to produce the amount of fuel consumed by Saskatchewan farmers. This results in a 4.6 cents per litre or 21 cents per gallon refund to farmers.

The reaction of the meetings to the refund was quite positive, although some concern was expressed about the removal of price discounts by farm fuel suppliers which occurred about the same time as the refund was announced. Recent declines in fuel prices have alleviated this concern to a degree.

There was a concern at the public meetings that petroleum companies are not as competitive as they might be in establishing market prices for farm fuels. The Committee notes that Petro-Canada, a Federal Crown Corporation, provides a vehicle with potential to instill a degree of price discipline in the industry.

The Committee recommends that the Government of Saskatchewan press the Federal Government to review the pricing of fuel wholesalers in Saskatchewan to ensure that pricing policies are consistent with providing fuels at the lowest possible cost. It is the Committee's view that Petro-Canada could well become a more aggressive marketer and price-setter for farm fuels in Western Canada and thus ensure that farmers can purchase fuels at competitive prices.

3.4 Fertilizers

Saskatchewan farmers spent over \$300 million on fertilizers in 1985, representing about 12 percent of their total operating costs. Given the amount farmers spend on fertilizer, the price of this input has a significant impact upon Saskatchewan net farm income.

The public meetings produced a variety of concerns in regard to fertilizer prices. There was a general concern that prices varied considerably. There was also a general view that competition among fertilizer dealers is inadequate and that Canadian prices are higher than world prices. The concern that government taxes on natural gas are partly responsible for the high price of nitrogen fertilizers was also raised.

The Committee recommends that the Government of Saskatchewan investigate methods of encouraging the purchase of bulk urea from offshore producers to reduce the nitrogen fertilizer prices in Saskatchewan. A counter-trade arrangement or other trade arrangements should be considered to facilitate two-way trade — that is, exporting our grains and importing their fertilizers.

Saskatchewan does not currently produce nitrogen fertilizer so Saskatchewan royalties on natural gas does not affect fertilizer prices. Reduction of Alberta royalties and federal taxes on natural gas could have some impact upon nitrogen fertilizer prices, although the actual impact on retail fertilizer prices may not be as dramatic as expected. The annual reports of the fertilizer industry indicate that on average, natural gas feedstocks account for about 19 percent of the average retail cost of nitrogen fertilizers. For modern world scale production plants, the cost of natural gas inputs is less than 10 percent of total retail costs. Based on an assumed tax load of 30 percent, government taxes and royalties would be responsible for about six percent of the average retail costs of nitrogen fertilizer. Therefore, complete removal of all Federal taxes and Alberta royalties would save farmers about six percent of their nitrogen fertilizer costs provided that the saving was passed through to farmers.

The Committee recommends that the Saskatchewan Government press the Federal Government to remove taxes on natural gas used for fertilizer production.

The amount Saskatchewan farmers spend on fertilizers each year and the availability of natural gas in the province suggests that Saskatchewan should establish its presence in the manufacture of nitrogen fertilizers. Past study of the prospect of a nitrogen plant in Saskatchewan has produced the following conclusions:

1. The profitability of a Saskatchewan plant would be dependent upon availability of natural gas at competitive prices.
2. Saskatchewan farmers use relatively low levels of fertilizer on a per acre basis compared to other agricultural areas. There is potential for strong growth in demand for nitrogen fertilizer use in Saskatchewan.

3. A fertilizer plant located in Saskatchewan would have a cost advantage primarily due to transportation costs, in a large market area in Saskatchewan, Manitoba and the Northern United States.

The Committee recommends that the Provincial Government encourage the establishment of fertilizer manufacturing facilities in Saskatchewan through loan guarantees, or other forms of assistance. This objective is now being pursued by the Saskatchewan Government.

3.5 Chemicals

Chemicals represent an increasing percentage of Saskatchewan farm operating costs. In 1985, Saskatchewan farmers spent \$230 million on pesticides. The Government of Saskatchewan provided assistance in the use of chemicals for grasshopper control in 1985. The cost of spraying R.M. roadsides is paid for by the program. This program has been expanded for 1986 with \$8.2 million made available for the program.

The concerns about farm chemicals at the public meetings were wide-ranging and included the following major topics:

- Ensuring that chemicals do the job they are supposed to do;
- The effect of patent laws and product specific registration on pricing, research and development, and human and environmental safety;
- Potential for manufacture of generic chemicals in Saskatchewan;
- Comparative pricing within and outside of Saskatchewan;
- Chemical application procedures and instructions;
- Use of chemicals versus tillage; and
- Chemical pricing control.

Two licencing issues were identified at the public meetings — Product Specific Registration and duration of patent protection. The Committee encountered sentiment that changes are required to Product Specific Registration procedures of the Federal Government. Product Specific Registration was seen as an impediment to the production of generic chemicals. Generic chemicals could have a price-reducing impact on farm chemicals. There was also a significant concern that the current 17 year patent protection on agricultural chemicals was excessive and not necessary to encourage adequate levels of research and development. The Committee is sympathetic to these concerns.

Product Specific Registration of pesticides was implemented by Agriculture Canada in 1980. It was introduced in response to pressure from industry for recognition of data ownership and a concern about microcontaminants. Product Specific Registration was based on the principle that each active ingredient from each source must have its own data base. Unfortunately, this results in a great deal of duplication of testing and consequent delay and extra cost in getting generic chemicals on the market.

The Committee recommends that the Federal Government's Product Specific Registration procedures be removed to facilitate the production of generic chemicals in Canada. However, the Committee also insists that a method of testing generic chemicals for environmental and health safety must be in place. A system could be adopted whereby the manufacturer of a generic chemical pays a testing fee to a national testing agency for environmental and health safety. The Federal Government should establish a lead agency for co-ordinating the testing requirements for generic chemicals.

The Committee also recommends that the duration of federal patent protection on agricultural chemicals be reduced. This change could have a significant downward influence on agricultural chemical prices. The length of patent protection should be adequate for the company investing in research, development and marketing of a new chemical to recover its investment but not to earn excessive profits.

The Committee also recommends that labelling requirements for farm chemicals be relaxed to allow for the importation from the United States of chemicals which do not meet Canadian labelling standards regarding metric specification and bilingualism.

The Committee heard concerns that Saskatchewan should be involved in the manufacture of farm chemicals. Saskatchewan farmers purchase large amounts of pesticides and the lack of a presence in the manufacture of chemicals leaves Saskatchewan vulnerable to the pricing policies of outside suppliers. The cost of establishing a chemical manufacturing plant is high, considering actual plant costs, licensing costs, and research and development costs. The Western Canadian market is not large enough to support the operation of an efficient size of plant, so export market development is essential to ensure a viable facility. Nonetheless, the potential for reducing farm chemical costs seems to be significant if Saskatchewan established manufacturing facilities.

The Committee recommends that the Saskatchewan Government encourage the development of facilities to manufacture farm chemicals. A venture of this nature would involve high risk and assistance will likely be required to encourage such facilities to locate in Saskatchewan.

The Committee also heard that significant savings are possible by more efficient use of farm chemicals. This concern was fairly widespread.

The Committee recommends that the Government develop additional programs which would promote the more efficient application of chemicals.

3.6 Farm Land Costs

The public meetings produced a number of concerns relating to land costs, land development and soil conservation and water management. Some of these include:

- The need for a speedier system for approval of drainage projects;
- The need for incentives for soil conservation;
- Strategies for dealing with marginal and erodible land;
- Surface rights policies; and
- Crown grazing leases.

The Committee believes that many of the concerns expressed in relation to land resources warrant further investigation before deciding on an appropriate course of action.

There were concerns in regard to grazing leases administered by the Crown. The drought in recent years has caused some producers to question estimated pasture carrying capacities. The Government recognizes the difficulties cattle producers suffer because of the drought and have therefore held rentals at 1984 levels for the last three years.

The Committee recommends that the Department of Agriculture review pasture carrying capacities to determine whether pastures which have experienced extreme weather conditions can support the present stocking rates.

3.7 Agricultural Machinery

New machinery purchases are a key factor in improving the efficiency of Saskatchewan agriculture. Farmers spent about 9.8 percent of their farm cash receipts on new machinery purchases in 1985. Machinery repairs totalled \$282 million or 10.4 percent of total operating costs in 1985. There are 732 agricultural implement dealers in Saskatchewan

Participants at the public meetings contributed a number of comments and concerns which include:

- The need for more parts depots around the province;
- The need for more short line distributors;
- The potential for machinery co-operatives to reduce costs;
- The potential for parts standardization and generic production of repair parts;
- The need for Government financing for machinery purchases;
- A lack of competition in the farm machinery industry;
- The effect of international exchange rates on machinery costs; and
- The need for more timely testing information about the performance of agricultural machinery and equipment.

The Committee was concerned by the view expressed several times that the availability and quality of machinery repair and servicing is not adequate in many areas of the province.

The Committee recommends that the Saskatchewan Government encourage more job training courses for service personnel for new machinery in conjunction with provincially-funded institutes and machinery dealers and manufacturers. A system of scholarships for service personnel would be well-received and may be most appropriate for specialized courses.

The Committee suggests that properly trained service personnel in local communities is just as critical to production efficiency on the farm as the labour and management of the farm itself. Also, a program to alleviate the cost of training service personnel could be a significant benefit for small machinery dealerships around the province.

3.8 Utilities

Utilities do not represent a major cost for most farmers as these inputs (telephone and electricity) accounted for only 2.3 percent of operating costs in 1985. Availability of utilities at reasonable rates is however crucial to the efficient operation of Saskatchewan farms. Among the concerns expressed at the public meetings in regard to utilities were the following:

- That rate structures for natural gas hook-ups be reviewed;
- That the rural natural gas distribution system is a positive development which should continue to be expanded;
- That private telephones for farmers would be a positive development;
- That government financing for costs of natural gas hook-up would enhance the adoption of natural gas.

The Government of Saskatchewan has already taken major initiatives in regard to provision of utilities through the Rural Natural Gas Distribution Program. Since 1982, gas service has been brought to over 10,000 rural and over 7,000 urban customers in some cases reducing fuel costs by up to 50 percent. In addition, the Saskatchewan Power Corporation will begin to install underground electrical cable to 86,000 rural customers this year.

Saskatchewan Telecommunications have laid over 3,400 kilometers of fiber optics and plan to lay an additional 750 kilometers over the next two years. This will provide better communications technology to rural residents.

In regard to telephones, the Government of Saskatchewan has recently announced that individual telephone service will be provided to farm users. Confidentiality in the transfer of production and financial information and in business transactions will be promoted. The AGRITEX system would become a more attractive option with private telephones. This system provides price and other information useful to farmers in conducting their businesses.

Providing natural gas service to farms will provide a significant reduction in heating bills and grain drying costs. Some farmers may decide not to take natural gas service because they feel they cannot afford to pay the farmer's portion of the hookup cost in one year. A loan with amortized payments over five years would enable many of these individuals to pay for natural gas hookup. If farmers intend to use natural gas for grain drying on their farms, a larger line must be installed and this can increase the farmer portion of the hookup cost to \$6,000 for seasonal and \$9,400 for year-round drying.

The Committee recommends that Saskatchewan Power Corporation finance the farmer's portion of the natural gas hookup cost over five years at the Corporation's cost of borrowing.

The Committee also recommends that farmers who utilize three phase electrical power have available to them programs similar to the proposed natural gas initiative with subsidized hook-up charges and low interest financing.

3.9 Insurance

The risks associated with farming require a solid insurance framework to provide farmers the certainty they need to run their businesses. The public meetings brought to light numerous ideas and concerns in regard to insurance. These included:

- High cost of liability insurance;
- Need for some adjustments to Canada-Saskatchewan Crop Insurance to provide more coverage options, insurance for new crops, and less coverage penalty for uncontrollable losses;
- Temporary licence plates for farm trucks; and
- High cost of insurance for chemical applicator aircraft.

The Committee recommends that the Government of Saskatchewan investigate means of bringing liability claims and premiums under control. Very high public liability claim settlements have resulted in high insurance costs for local businesses, local government and school boards. These costs eventually come out of the farmer's pocket.

3.10 Farm Management

A common theme at the public meetings was the need for continued development of human resources in agriculture. More farmer training programs, strengthening of agricultural extension services, development of financial management skills, more training of agricultural specialists and general training and awareness of agriculture were some of the ideas presented. Many farmers felt that business management courses should be compulsory in Saskatchewan high schools.

The Committee recommends that the Saskatchewan Department of Education implement more accredited business management courses into the secondary school system. Some opportunity exists now for these courses but the Committee feels that the availability of such courses is not sufficiently widespread. The Committee further recommends that a basic knowledge of agriculture be taught in Saskatchewan's school system. The present agriculture course needs upgrading. The Saskatchewan Institute of Agrologists is presently involved in developing material for inclusion in high school courses.

The financial conditions affecting agriculture have emphasized the need for farmers to strengthen financial management and marketing skills. The Department of Agriculture provides courses through farm management clubs and homestudy programs.

The Committee recommends that the Department of Agriculture continue to strengthen course offerings in regard to farm financial and marketing management and through Extension Services make the farming public more aware of available courses.

3.11 Feed Grains

Feed grains are a major input in livestock production. Lack of local supplies at reasonable prices has been a periodic concern of Saskatchewan livestock producers for several years. Considerable study has occurred in relation to this problem in the past, yet the concerns have not disappeared. The public meetings reinforced this fact.

The Committee recommends that the Canadian Wheat Board (CWB) implement a system of switching feed grains whereby livestock producers can purchase feed grain that is in storage in local elevators. The CWB would offer to switch feed grain stocks from the export position to prairie elevators.

The switching mechanism described would assist in making feed grain available to livestock producers and should not cost the Canadian Wheat Board anything beyond administration of the switching procedure.

Another area of opportunity in feed grains relates to where Saskatchewan grain is cleaned. Currently Saskatchewan grain for export is cleaned primarily at export terminals. The cleanings are then pelletized and occasionally some are returned to Saskatchewan to be used as livestock feed. The Committee believes that this cleaning at export position is not an efficient practice and that it discourages potential value-added production in Saskatchewan. Cleaning in Saskatchewan would also provide a valuable supply of feed in the form of pelletized screenings.

The Committee recommends the cleaning of grains and pelletizing of screenings in Saskatchewan to make feed more available to Saskatchewan users.

3.12 Grain Transportation

Although not directly related to farm inputs, the Committee heard sufficient representations at the public meetings to prompt a recommendation relating to the Port of Churchill as an export terminal for Prairie grain. The Committee determined that many of the reports conducted in the past on the Port of Churchill contain incomplete information and analysis of costs of Churchill versus other export positions. Significant reductions of over \$20 per tonne in grain handling costs may accrue if Churchill were used more extensively because Great Lakes, Seaway and St. Lawrence elevator transfer costs would be avoided.

The Committee recommends that the Port of Churchill be used more extensively for the export of western grains and that the use of this port be made more economical by encouraging more incoming products wherever possible.

The recent Federal Government funding for the Port of Churchill for upgrading the facility is welcome news and Saskatchewan should provide what support it can, in the future, to ensure the viability of the Churchill terminal.

The Committee was told that minimal road damage would occur if overloaded grain trucks used roads during winter months. Allowing grain trucks to haul heavier loads would reduce farmers' costs.

The Committee recommends that the Government of Saskatchewan allow farm trucks to haul overweight loads during designated winter months to local delivery points without special permits so long as they meet safety requirements.

3.13 Research

The future prosperity and competitiveness of agriculture in Saskatchewan is dependent upon the development of new products and techniques. Agricultural research in Saskatchewan is undertaken primarily by the Federal Government, Saskatchewan Government, University of Saskatchewan and the private sector.

The concerns of participants at the hearings included:

- The impact of new production technologies to reduce farm input costs;
- Plant breeders' rights;
- The need for producer checkoffs; and
- The need for expanded agricultural research facilities;

The Provincial Government has recognized the need for improved agricultural training and research and as a result has announced the construction of a new College of Agriculture building at the University of Saskatchewan.

The Government of Saskatchewan also established a 5-year \$200 million Agriculture Development Fund which is spent in part on innovative research projects such as the identification and development of micro-organisms as effective biological control against grasshoppers and other insect pests. The Agriculture Development Fund also forms an integral part of the Government's current program to demonstrate the usefulness of new technologies to farmers. The Agriculture Development Fund provides support to both public and private institutions.

An Agricultural Extension Review Committee is currently preparing a report as to how to strengthen the Department of Agriculture's extension services to farmers. The Committee is searching for ways to prepare to meet the technology transfer challenges of the 1990's in order to maintain and enhance the competitiveness of Saskatchewan agriculture.

The Committee recommends that the Department of Agriculture give further emphasis to research on biological control of pests in order to reduce farm chemical costs in the future.

The Committee recommends that Federal Government crop research facilities be expanded and that similar research currently being performed at the University of Saskatchewan be better co-ordinated with Federal Research Stations.

The Committee recommends that the Provincial Government encourage the Federal Government to examine alternatives to improve research efficiency such as specialization of research at different Federal Government Research stations.

The Committee recommends that a branch of the College of Agriculture be established at Melfort to conduct specialty crop research.

The Committee recommends that the Department of Agriculture continue to strengthen its efforts in assisting the transfer of new technology to farmers.

4.0 General Issues

Aside from issues and concerns relating strictly to farm inputs, the Committee heard general concerns about economic and policy issues affecting agriculture in Saskatchewan. Some of the main concerns in this regard included:

- The pricing of domestically consumed wheat;
- Agricultural price parity and cost of production pricing;
- The effect of free trade on agriculture;
- International subsidization of agriculture;
- Orderly marketing versus open marketing;
- Guaranteed income for farmers;
- The amount of school taxes levied on farm land;
- Grain transportation issues (e.g. crow rate, crow benefit, method of payment, variable freight rates);
- Agricultural price stabilization programs;
- Beef import policy;
- Effect of international exchange rates on Saskatchewan agriculture;
- Agricultural disaster relief programs; and
- Better co-ordination and co-operation between municipalities, agricultural representatives, hospitals, nursing homes, and school districts.

A common theme of the public meetings was that farm input costs would not be as major a problem if farmers earned better returns for the products they produce. Although the committee recognizes the benefits to Saskatchewan agriculture of higher and more stable product prices, recommendations in this area are beyond the terms of reference for this report. However, the Committee is sympathetic to actions which would achieve these goals and encourages the Provincial Government to make representations to the House of Commons Committee hearings on two-price wheat. The Committee would also encourage all levels of Government in Canada to press for a world agriculture summit to deal with agriculture issues as they relate to export subsidies, domestic subsidies and export pricing.

The Committee acknowledges the commitment the Federal Government has demonstrated to Canadian agriculture through such measures as drought assistance, capital gains tax exemptions, fuel tax rebates, farm debt review panels, tripartite stabilization, increasing the domestic wheat prices, and freezing grain freight rates for 1986-87.

5.0 General Trends in Farm Input Costs

Farm input cost increases have had a major impact upon the net incomes of Saskatchewan farmers in recent years. Although gross income increased by an annual average rate of 5.9 percent since 1979, farm expenses increased by 8.9 percent on average. This has generated a considerable cost-price squeeze for the province's farmers and as a result, net incomes have declined.

Saskatchewan Farm Income and Expenses 1980-85 (\$ million)

	Realized Gross Income	% Change	Total Expenses	% Change	Realized Net Income	% Change
1980	3,343.1	(9.3)	2,395.4	(16.3)	947.7	(-5.0)
1981	4,050.4	(21.1)	2,908.1	(21.4)	1,142.3	(20.5)
1982	4,051.8	(-)	3,071.9	(5.6)	979.9	(-14.2)
1983	4,002.8	(-1.2)	3,240.9	(5.5)	761.9	(-22.2)
1984	4,398.2	(9.9)	3,316.3	(2.3)	1,081.9	(42.0)
1985	4,230.5	(-3.8)	3,400.3	(2.5)	830.2	(-23.2)

Average Annual Percent Increase

5.9%	8.9%	-0.4%
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Another way of viewing the squeeze farmers are experiencing is to compare the price index for Saskatchewan farm products to the farm input price index for Western Canada over the same period. Since 1979 the prices received by Saskatchewan farmers have increased by only six-tenths of one percent per year on average while the prices Saskatchewan farmers pay for their inputs have increased at an average rate of 5.6 percent per year. These trends are largely responsible for the financial difficulties Saskatchewan farmers are experiencing, and have been particularly hard on those farmers carrying substantial amounts of debt.

Farm Products Price Index and Farm Input Price Index (1980-85)

Saskatchewan Farm Products Price Index			Western Canada Farm Input Price Index		
	% Change			% Change	
1980	95.6	(14.4)	86.3	(9.9)	
1981	100.0	(4.6)	100.0	(15.9)	
1982	93.8	(-6.2)	103.4	(3.4)	
1983	91.2	(-2.8)	103.6	(0.2)	
1984	93.6	(2.6)	106.6	(2.9)	
1985	85.4	(-8.8)	108.0	(1.3)	

Average Annual Percentage Increase:

0.6%

5.6%

The concerns expressed at the public meetings held across the province confirm the impact which these product and input price trends have had on Saskatchewan farmers. There is widespread consensus that product prices have not kept pace with input costs. A common theme throughout the hearings was that farmers need better returns for the product they sell, but that action also needs to be taken to reduce production costs.

6.0 Summary

The Cabinet Committee received their mandate to investigate farm production costs at a time when Saskatchewan farmers face a serious financial situation. Realized net income has followed a downward trend over the past decade. Total farm debt in Saskatchewan has risen to a level over \$4½ billion. Persistent cost increases and high interest rates, falling commodity prices, and production problems such as drought and grasshoppers have been responsible for the declining economic performance of the agriculture industry. A continuation of the trend in rising input costs will generate an ever worsening cost-price squeeze further aggravated by the substantial drop in grain prices.

The Committee has proposed several important recommendations to deal with the high and increasing costs of production. The Committee is able to present these recommendations because of the time and effort given by individuals and organizations who presented briefs. These recommendations cover a broad spectrum; they deal with issues ranging from the need for more research aimed at lowering production costs, to measures which would directly lower input costs such as the production of agricultural chemicals in Saskatchewan.

The Government of Saskatchewan has already taken steps to assist farmers with high production costs through programs providing low interest loans, cash advances, fuel rebates, timely information on farm input prices, research, and other measures. The Committee believes that the recommended actions outlined in this report, in conjunction with these past initiatives, will have a significant impact on farm input costs.

Appendix A

Recent Government Programs and Policy Initiatives to Lower Farm Input Costs

Recent Government Initiatives to Lower Farm Input Costs in Saskatchewan

Provincial:	1986
Farm Purchase Program (value of rebates).....	\$ 25,000,000
Counselling and Assistance for Farmers (loan guarantees).....	35,000,000
Agricultural Credit Corporation (loans)	14,000,000
Feeder Associations Loan Guarantee (authorized to borrow)	25,000,000
Production Loan Program (loans).....	1,200,000,000
Oil Royalty Refund Program	42,000,000
Livestock Cash Advance	150,000,000
Hog Cash Advance	12,500,000
Irrigation Assistance	1,100,000
Cattle Movement Assistance	150,000
Grasshopper Control	8,200,000
Total	\$1,512,950,000
Federal:	
Prairie Drought Assistance	71,000,000
Fuel Tax Rebate	43,000,000
Freight Rate Freeze	24,000,000
Total	\$ 138,000,000
Provincial and Federal Total	\$1,650,950,000

Appendix B

Recent Trends in Farm Input Prices

Percent Change Western Canada Farm Input Prices

	1985/81
Total Farm Inputs	8.0
Property Taxes	32.9
Farm Rent	5.2
Hired Farm Labour	18.4
Interest	-9.7
Machinery and Motor Vehicles	18.8
machinery replacement	11.2
operation	25.8
petroleum products	35.7
maintenance	15.3
Crop Production	0.8
fertilizer	-9.2
pesticides	22.9
seed	-10.8
Animal Production	1.8
feed	-5.8
Building and Fencing	15.7
building replacement	15.7
building repairs	12.6
Supplies and Services	22.4
electricity	29.7
telephone	24.3
custom work	17.1

Source: Statistics Canada 62-004

Appendix C

Western Canada Farm Input Price Index

	1981	1982	1983	1984	1985
	1981 = 100				
Total Farm Inputs ..	100.0	103.4	103.6	106.6	108.0
Property Taxes	100.0	117.6	120.6	127.8	132.9
Farm Rent	100.0	102.3	104.4	96.8	105.2
Hired Farm Labour	100.0	106.3	110.1	114.7	118.4
Interest	100.0	97.8	80.5	89.1	90.3
Machinery and					
Motor Vehicles...	100.0	109.3	114.3	117.7	118.8
machinery					
replacement	100.0	106.3	110.9	113.5	111.2
operation	100.0	112.8	118.0	122.2	125.8
petroleum					
products	100.0	117.3	123.6	128.9	135.7
maintenance	100.0	108.1	111.7	114.7	115.3
Crop Production	100.0	98.2	95.6	98.7	100.8
fertilizer	100.0	92.0	86.5	90.2	90.8
pesticides	100.0	111.5	116.6	119.6	122.9
seed	100.0	91.6	85.9	88.3	89.2
Animal Production ..	100.0	99.7	100.6	102.3	101.8
feed	100.0	92.7	93.1	99.1	94.2
Building and					
Fencing	100.0	106.8	115.1	114.2	115.7
building					
replacement	100.0	106.0	115.4	114.3	115.7
building repairs...	100.0	105.5	113.7	111.6	112.6
Supplies and					
Services	100.0	109.2	114.4	120.0	122.4
electricity	100.0	109.3	115.2	124.9	129.7
telephone	100.0	106.9	116.4	121.9	124.3
custom work	100.0	108.7	113.6	116.8	117.1

Source: Statistics Canada 62-004